



**ARIZONA DEPARTMENT OF REVENUE**  
Property Tax Division

**LAND MANUAL**

**CHAPTER 5**

**CONDOMINIUM AND TOWNHOUSE SUBDIVISIONS**

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## CONDOMINIUM AND TOWNHOUSE SUBDIVISIONS

**Ownership, Organization and Rights.** Condominium subdivisions can be comprised of residential, commercial or industrial use properties, but residential projects are the most common type. "Townhouse" subdivisions will be discussed in conjunction with and in comparison to condominium subdivisions throughout the remainder of this chapter. The discussions in this section will focus only on residential use subdivisions. However, keep in mind that all types of condominium subdivisions are subject to the provisions of Title 33, Chapter 9 and must be treated uniformly for property tax assessment purposes. Further, all residential condominium (and "townhouse") subdivisions must be valued in accordance with the same procedures discussed in the previous section regarding residential subdivisions in general, pursuant to A.R.S. § 32-2101(54).

Residential condominium and townhouse projects are different from typical single-family residential subdivisions primarily in the ownership of land, and by the fact that any condominium must be legally identified by the inclusion of the term "condominium" in the subdivision name, or in the required "declaration" which legally creates a condominium. While most often physically constructed in a manner similar to the typical residential condominium project, a residential "townhouse" project is more accurately described as being a residential planned unit development (**P.U.D.**), which is identified by the subdivision's conditions, covenants and restrictions (CC & Rs) statement. (Note that planned unit developments can also consist of detached, single-family structures and can be commercial or industrial use properties as well, similar to condominiums.) Either type of project must be clearly identified in the documentation required to be submitted to the State Real Estate Department for their issuance of a subdivision public report.

In condominium projects, all of the land in the project is commonly owned, with an undivided interest in the land vested in each parcel or unit. In townhouse (P.U.D.) projects, the owner of the unit individually owns the land under each unit. In some cases, the owner of a townhouse (P.U.D.) unit will also own a small area directly in front, to the rear, or to the side(s) of the unit. The balance of the land area in the P.U.D. project will normally be commonly owned by a homeowner's association that is owned and controlled by the individual unit owners. In limited cases, the balance of the land in the P.U.D. project is also owned by the individual unit



owners, as an undivided interest in the land vested in each unit, similar to a condominium project.

Usually, townhouse (P.U.D.) and condominium owners will own the residential structure, including a proportionate share of the common walls. In some cases, however, the condominium owner may own only the air space within the residential structure. There are even instances of free-standing, single-family structures comprising residential condominium projects, but they are rare. These variations are mentioned here to emphasize that condominiums and P.U.D.s are legal creations; they are not simply descriptions of physical construction characteristics. In many areas the terms condominium and townhouse are used interchangeably. However, this is an incorrect practice. Condominiums are only created under Title 33, by the Uniform Condominium Act. Per A.R.S. § 33-1202(10), a "condominium" is defined as "...real estate, portions of which are designated for separate ownership and the remainder of which is designated for common ownership solely by the owners of the separate portions. Real estate is not a condominium unless the undivided interests in the common elements are vested in the unit owners." Note that while "undivided interests" may be held by the owners of individual townhouse units in a planned unit development, the P.U.D. is not a "condominium," by definition.

**Common Area Considerations.** Both condominium and townhouse (P.U.D.) parceling require the assignment of a parcel number to each individual unit. In condominium complexes there will be no separate title to the commonly owned land. The sale agreements will assign ownership of an identified individual unit, together with a fractional undivided interest in the common areas or elements. The common ownership interest will be included as a part of the legal description: e.g., "By this instrument and in accordance with the terms herein specified, the Jones Development Company does convey all rights, title, and interest in Unit 631K, together with a one/seven hundred twentieth (1/720) undivided interest in all common elements." In P.U.D.s, however, common areas may be either commonly owned and not separately titled, or they may be separately titled and remain separately owned (by the project developer or by the homeowner's association). If commonly owned and integral to the value of individual units, a fractional undivided interest in the common areas are included in the value of the individual units, similar to a condominium project. If not, the common areas are separately titled, separately parceled and separately valued.



The commonly owned land areas of a P.U.D., if separately titled, should be assigned a separate parcel number or series of parcel numbers, as appropriate. If not separately titled, the common areas may be designated as a tract or series of tracts.

**Valuation of Condominium Common Areas.** The separate valuation of common areas in all condominiums is specifically prohibited under A.R.S. § 33-1204(B), unless the common areas are subject to developer withdrawal (see below). The reason for this is that those areas of a condominium under common ownership are a part of the package purchased by the individual unit owner at the time the unit is purchased. The bundle of rights encompassed in normal ownership, therefore, is included in the ownership of the individual units, and the rights to the common elements are additional rights that have accrued to each unit. Conversely, the rights normally included in property ownership are no longer included in the rights remaining with the common areas. This is particularly true of the rights to sell, trade, or subdivide the land comprising the common areas or elements.

**Valuation of Townhouse Common Areas.** A.R.S. § 42-13402 defines common areas as “consisting of improved or unimproved real property that is intended for the use of owners and residents of a residential subdivision or development and invited guests of the owners or residents and include common beautification areas”. A.R.S. § 42-13402 excludes common areas of condominium properties and golf courses from consideration as residential common areas.

To determine the qualification of a common area for separate valuation under A.R.S. §§ 42-13401 through 42-13404, a review of conveyance documents from the Arizona Department of Real Estate, the County Recorder’s Office, or the homeowner’s association will help make the decision by the way the common area is deeded. A qualified residential common area must be deeded to a nonprofit homeowner’s association, nonprofit community association, or a nonprofit corporation. Additionally, for the common area to qualify for separate valuation, property owners must have membership in the association or the corporation, or must have an obligation to pay mandatory assessments to maintain and manage the common area. Each qualified common area parcel, whether improved or unimproved is valued at \$500. For a complete discussion of valuation of qualified common areas, see the Arizona Department of



Revenue Property Tax Division Guideline, entitled "Residential Common Areas", dated March 31, 2000.

**Valuation of Land.** Land areas zoned for condominium or townhouse (P.U.D.) development compete with all other classes of land for sale in the market place. If condominium or townhouse (P.U.D.) land begins to command a premium price, in response, zoning and supply will usually catch up with demand relatively soon. This fact, together with the density of the use authorized under residential condominium or P.U.D. zoning tends to support a land value (per comparative unit) that is usually higher than the per unit value of single-family residential land. In most areas in the state, developers make similar investments per unit in land, including site preparation costs, interior roads, sidewalks, etc., for the construction of competitive condominium or townhouse (P.U.D.) projects. As is common in single-family residential subdivisions, due to competition, residential condominium and townhouse (P.U.D.) parcels should exhibit similar land value to improvement value ratios in and between similar, competitive projects, including the contribution of off-site amenities and site preparation costs.

Also, as is true of any other type of subdivision, any "rule of thumb" generalizations about condominium or townhouse (P.U.D.) land acquisition costs and developmental improvement cost data should be completely avoided. These factors must be extracted from market sales data and other market related research.

In typical projects, density can range from as low as two or three units per acre to as high as about fifteen units per acre. Unit density in the vast majority of residential complexes, however, will fall in a typical range of seven to ten units per acre. Density affects costs, but not in direct proportion to the number of units to the acre. For example, if a density of eight to ten units to the acre is contemplated, the total site preparation costs will generally exceed the costs to prepare sites for a density of six to seven units per acre on the same land. Conversely, however, the per unit cost decreases as density increases. The following example illustrates:



**Example.** Site preparation cost estimate (hypothetical).

8 Units per acre =	\$28,000 per acre site preparation cost <u>= 3,500</u> per unit site preparation cost
6 Units per acre =	\$24,000 per acre site preparation cost <u>= 4,000</u> per unit site preparation cost

When appraising any condominium or townhouse (P.U.D.) land, the Direct Market Comparison Approach is the most reliable method. To apply the Market Approach:

1. Determine the per acre value of undeveloped land in the neighborhood that is suitable for condominium or townhouse (P.U.D.) development and for which such development is authorized or authorization is readily obtainable. Include the sale of the subject property if the sale is representative of other arm's-length sales.
2. Estimate the site preparation cost of the subject complex, or obtain development cost information from the developer.
3. Total the land acquisition and site preparation cost data on a per acre basis and divide by the average number of units per acre to determine the average per unit Initial land value. With both condominium and planned unit developments, the value of common area land and improvements owned by a homeowner's association or developer must be deducted prior to the allocation to the units, to avoid double taxation. If the per unit costs fall outside of an average of 10% to 20% of the selling price, the cost data should be carefully reviewed and verified, or modified in accordance with the local market. Purchase prices somewhat inconsistent with typical land cost patterns are commonly found in the market place. When found, they should be carefully checked, but if valid, the actual costs should be considered when establishing Interim and Final Full Cash site values. To be valid, however, the Final Full Cash land value established for a condominium or townhouse (P.U.D.) complex must be consistent with local land acquisition and site preparation costs. In condominium or townhouse (P.U.D.) appraisal, as in all other land appraisal, use realistic data that can be verified in the market place. Do not use land as a variable to reflect the difference between structural cost estimates and



unit selling prices. Once the value of the land that comprises the total complex has been determined, it can be allocated on the basis of the average unit area as determined by the number of units in the project, by the actual square footage of each unit to the total square footage of all units, or by any other legally specified ownership and property rights.

If vacant land market sales data is insufficient, the alternative Abstraction Method can be used. To apply the Abstraction Method, establish a total selling price for all units comprising the complex. Total the cost generated value (RCNLD) of all improvements existing in the complex, including streets, sidewalks, carports, clubhouses, swimming pools, recreational facilities, taxable personal property, unit structures, and incidental costs such as profit, interest and sales costs. Subtract the cost and overhead generated value from the total selling price of the complex units. The balance will be the indicated land value of the complex. Divide this value by the number of units in the complex to establish a unit land value increment. As was necessary under the Market Approach, if the condominium or P.U.D. complex common areas are to be owned by the homeowner's association or developer, it will be additionally necessary to deduct the value of the common areas land from the balance derived from deducting all costs from the total selling price of the complex units. Then, divide the resultant value by the number of units in order to produce an accurate per unit land value increment and to avoid double taxation. The accurate application of the Abstraction Method is highly dependent on accurate market sales; improvement costs and especially on estimated accrued depreciation data. It should not be used alone to determine land values

Condominiums and townhouses (P.U.D.s) offer a very high potential for market analysis using multiple regression when sales occur in sufficient numbers. The land value abstraction method described above is an excellent way to update existing land values to establish a new level of value when reappraising condominiums or townhouses (P.U.D.s) using regression analysis. The base land concept works well in this regard. Average residual can be converted to the new base land value for a condominium or townhouse (P.U.D.) complex.